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SUBJECT: NEPAL: ECONOMIC HIGHLIGHTS FOR THE MONTH OF APRIL
2009

¶1. (U) Below is a compilation of economic highlights from
Embassy Kathmandu for the months of March and April 2009,
including the following:

- Foreign Direct Investment Plunges
- Government Revenue Grows Faster Than Expenditures
- Exports Rise, But Imports Rise Faster
- Electricity Crisis Abates Slightly
- Tourist Arrivals Rise After Three Months of Decline

Foreign Direct Investment Plunges Nearly 33 Percent

(U) Foreign direct investment (FDI) plunged nearly 33 percent during the first nine months of the current fiscal year, according to the Department of Industry (DOI). FDI in the first nine months of the fiscal year, which started in mid-July 2008, totaled Rs. 5.35 billion (USD 67.8 million), as compared to Rs. 7.96 billion (USD 101 million) during the same period in the previous year. The DOI reported that the decline occurred even though foreign investment in the services and tourism sectors increased by more than USD 4 million. According to the DOI, 150 FDI-funded projects were approved during the first three quarters of the current fiscal year, an 8-percent increase over the same period last year. The DOI's director of statistics explained that there were some "big-budget projects" in construction, manufacturing and minerals arrived last fiscal year, but "this year big projects did not knock on our door as expected." India remained the largest source of FDI, followed by China, Singapore, Brazil and Cyprus. During the period, FDI from the U.S. totaled Rs. 44 million (USD 557,000), or about one-seventh of the level of investment from Cyprus.

Government Revenue Grows Faster Than Expenditures

(U) Government revenue grew by 38.6 percent during the first eight months of the current fiscal year, outpacing growth in total government expenditures, which rose by 14.2 percent, according to the Nepal Rastra Bank (NRB), the nation's central bank. The government ended the period with a Rs. 11.3 billion surplus (USD 143 million) in contrast to a deficit of Rs. 7 billion (USD 88.6 million) in the corresponding period of the previous year. Overall expenditures were up despite the fact that capital expenditures fell by 15.9 percent to Rs. 14.7 billion (USD 186 million), a decline the NRB blamed on a number of factors, including delays in presenting the budget and formulating programs and irregular power supply.

Non-tax revenues nearly doubled to Rs. 17 billion (USD 215 million) during the period, as compared to last year, largely as a result of an increase in dividends public enterprises paid to the government, according to the NRB. According to the central bank, there were also significant increases in income tax and excise tax revenues, which rose 42.6 percent and 27.9 percent respectively. Income tax revenues totaled Rs. 14.5 billion (USD 186 million), with the NRB attributing increased receipts to strong administration of the government's new Voluntary Declaration of Income Source program.

Exports Rise, But Imports Rise Faster

(U) During the first eight months of the current fiscal year, exports rose by 17.1 percent in contrast to a 2.9-percent decline during the same period last year, according to the NRB. However, the central bank reported that export growth was outstripped by growth in imports, which surged by 26.1 percent during the period. Exports to India, Nepal's largest market, rose a modest 3.6 percent, led by ready-made garments, footwear and toothpaste. In the corresponding period last year, exports to India grew by 24.9 percent. Exports to other countries grew by 48.7 percent, nearly five times last year's rate. The NRB attributed this robust growth to exports of legumes, pashmina, woolen carpets, herbs and paper products. Officials with the government's Trade and Export Promotion Center have questioned the NRB's export claims, noting that their figures show that exports of both woolen carpets and pashmina have

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declined this fiscal year largely as a result of the global economic crisis and the easy availability of cheaper Indian and Chinese carpets. Garment Association of Nepal (GAN) officials did not dispute the NRB's claim that there has been an increase in ready-made garment exports to India, but they pointed out that exports to the United States, which once accounted for 85 percent of Nepal's global market, have plummeted. In April, according to the GAN, exports dropped to the United States amounted to only USD 529,500, about half the level in April 2008. In 2004, the final year the Multi-Fiber Agreement's quota system was in effect, Nepal's ready-made garment exports to the United States totaled USD 85.7 million.

Electricity Crisis Abates Slightly

(U) On April 18, the Nepal Electric Authority (NEA) cut load-shedding to 12 hours per day, four hours less than previously. In some areas of the country, however, load-shedding remains at 16 hours per day. At an international hydropower conference in Kathmandu in late April, an NEA official cautioned that up to 10 hours a day of load-shedding is likely "several years." The week of the conference, government negotiations with India on the importation of 30MW broke off two days before an agreement was set to be signed. NEA officials blamed the breakdown on India, claiming the Indian government put a hold on the agreement in response to Maoist-led Nepali government's efforts to sack the Chief of Army Staff. Indian officials denied the charge, saying the talks stalled for financial, not political, reasons.

Tourist Arrivals Up for First Time in 2009

(U) After three consecutive months of decline, tourist arrivals at Tribhuvan International Airport, Nepal's sole international airport, went up 15.8 percent in April, compared to the same month last year. According to the Nepal Tourism Board (NTB), 37,819 tourists arrived by air in April, or about 5,150 more than in April 2008. NTB officials attributed the increase to robust growth in the number of

tourists arriving from elsewhere in Asia, with all nations in the region, except Japan, posting positive growth. India accounted for nearly 22 percent of all arrivals. In a prepared statement, NTB officials said that the April's growth "underscores the need to focus in the regional market at the time of economic crisis." Despite the April increase, overall air arrivals for 2009 remain 8 percent below last year's level.

Inflation Remains High

(U) During the first eight months of this fiscal year, consumer and wholesale prices both increased at nearly double last year's rate, according to the NRB. The central bank said the 13.1-percent increase in consumer prices was driven mainly by a 17.1-percent increase in the price of food and beverages. Sugar and sugar-related products prices rose 53 percent, while vegetable and fruit prices increased nearly 22 percent. The NRB reported that the wholesale prices rose 12.3 percent, driven largely by a 15.3-percent increase in agricultural commodities. According to the bank, wholesale fruits and vegetable prices increased 31.8 percent, while livestock prices rose 23.2 percent.

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